



0000005729

NEDY

ATTORNEYS AT LAW

MICHAEL M. GRANT
DIRECT DIAL: (602) 530-8291
E-MAIL: MMG@GKNET.COM

RECEIVED

2002 JUL 30 P 3: 01

AZ CORP COMMISSION
DOCUMENT CONTROL

July 30, 2002

ORIGINAL

2575 EAST CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
PHONE: (602) 530-8000
FAX: (602) 530-8500
WWW.GKNET.COM

HAND-DELIVERED

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Re: *Southwest Transmission Loan Documents; Decision No. 64991;
Docket Nos. E-04100A-00-0227 and E-01773A-00-0227*

Dear Sir/Madam:

In compliance with Decision No. 64991, enclosed are eleven copies of correspondence and loan documents which were transmitted to Mr. Williams on July 26, 2002.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

By:
Michael M. Grant

MMG:bo
Enclosures

ORIGINAL and TEN copies of
the foregoing filed with Docket
Control this 30th day of July, 2002.

15169-0003/1035149v1

Arizona Corporation Commission
DOCKETED

JUL 30 2002

DOCKETED BY	
-------------	--

RUS Project Designation:

Arizona 31-A8

**SUPPLEMENTAL MORTGAGE AND SECURITY
AGREEMENT**

made by and between

SOUTHWEST TRANSMISSION COOPERATIVE, INC.

1000 S. Highway 80
P.O. Box 670
Benson, AZ 85602

Organizational ID # AZ0844458-4

Mortgagor,

**NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION**

2201 Cooperative Way
Herndon, VA 20171-3025

Mortgagee, and

UNITED STATES OF AMERICA

Rural Utilities Service
Washington, D.C. 20250-1500

Mortgagee

Dated as of January 2, 2002

THIS INSTRUMENT GRANTS A SECURITY INTEREST IN A TRANSMITTING UTILITY.

THE DEBTOR, AS MORTGAGOR, IS A TRANSMITTING UTILITY.

THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY, AFTER-ACQUIRED PROPERTY, PROCEEDS, FUTURE ADVANCES AND FUTURE OBLIGATIONS. THIS INSTRUMENT SECURES OBLIGATIONS UP TO AND INCLUDING THREE HUNDRED MILLION DOLLARS (\$300,000,000.00).

Supplemental Mortgage and Security Agreement

Supplemental Mortgage and Security Agreement, dated as of January 2, 2002 (hereinafter sometimes called this "Supplemental Mortgage") is made by and among SOUTHWEST TRANSMISSION COOPERATIVE, INC. (hereinafter called the "Mortgagor"), a cooperative association existing under the laws of the State of Arizona, NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION ("CFC") a not-for-profit cooperative association existing under the laws of the District of Columbia and the UNITED STATES OF AMERICA acting by and through the Administrator of the Rural Utilities Service (hereinafter called the "Government"), and intended to confer rights and benefits on each of the Government and CFC, in accordance with this Supplemental Mortgage (the Government and CFC being hereinafter sometimes collectively referred to as the "Mortgagees").

Recitals

WHEREAS, the Mortgagor, the Government and CFC are parties to that certain Mortgage and Security Agreement (the "Original Mortgage" as identified in Schedule A of this Supplemental Mortgage) originally entered into between the Mortgagor, CFC, and the Government; and

WHEREAS, the Original Mortgage as the same may have been previously supplemented, amended or restated is hereinafter referred to as the "Existing Mortgage"; and

WHEREAS, the Mortgagor deems it necessary to borrow money for its corporate purposes and to issue its promissory notes and other debt obligations therefor, and to mortgage and pledge its property hereinafter described or mentioned to secure the payment of the same, and to enter into this Supplemental Mortgage pursuant to which all secured debt of the Mortgagor hereunder shall be secured on parity; and to add Supplemental Lender as a Mortgagee and secured party hereunder and under the Existing Mortgage (the Supplemental Mortgage and the Existing Mortgage, hereinafter sometimes collectively referred to the "Mortgage"); and

WHEREAS, all of the Mortgagor's Outstanding Obligations listed in Schedule A hereto (together with any other amounts due under or secured by the Existing Mortgage) are secured *pari passu* by the Existing Mortgage for the benefit of all of the Mortgagees under the Existing Mortgage; and

WHEREAS, the Existing Mortgage provides the terms by which additional *pari passu* obligations may be issued thereunder and further provides that the Existing Mortgage may be supplemented from time to time to evidence that such obligations are entitled to the security of the Existing Mortgage and to add additional Mortgagees; and

WHEREAS, by their execution and delivery of this Supplemental Mortgage the parties hereto do hereby secure the Additional Notes listed in Schedule A *pari passu* with the Outstanding Obligations under the Existing Mortgage; and

WHEREAS, all acts necessary to make this Supplemental Mortgage a valid and binding legal instrument for the security of the Obligations under the terms of the Mortgage, have been in all respects duly authorized:

NOW, THEREFORE, This Supplemental Mortgage Witnesseth: That to secure the payment of the principal of (and premium, if any) and interest on all Notes issued or assumed under the Assumption Agreements, the Loan Agreements, the Existing Mortgage and this Supplemental Mortgage, according to their respective tenor and effect, and all future advances that may subsequently be made to the Mortgagor by any Mortgagee, evidenced by a Note, and all renewals and extensions of any Note, and the performance of all provisions therein and herein contained, and in consideration of the covenants herein contained and the purchase or guarantee of one or more Notes by the guarantors or holders thereof, the Mortgagor has mortgaged, pledged and granted a continuing security interest in, and by these presents does hereby grant, bargain, sell, alienate, remise, release, convey, assign, transfer, hypothecate, pledge, mortgage, set over and confirm, pledge and grant a continuing first priority security interest and lien in, for the purposes hereinafter expressed, unto the Mortgagees all property, rights, privileges and franchises of the Mortgagor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein or any other kind or nature, hereof owned or hereafter acquired by the Mortgagor (by purchase, consolidation, merger, donation, construction, erection or in any other way) wherever located, including (without limitation) all and singular the following:

- A. all of those fee and leasehold interests in real property set forth in Schedule B hereto, subject in each case to those matters set forth in such Schedule; and
- B. all of those fee and leasehold interests in real property set forth in Schedule B of the Existing Mortgage or in any restatement, amendment or supplement thereto, subject in each case to those matters set forth in such Schedule; and
- C. all of the kinds, types and items of property, whether now owned or hereafter acquired, described as Mortgaged Property in the Original Mortgage or in any restatement, or amendment to, or supplement thereto, as Mortgaged Property.

TO HAVE AND TO HOLD as provided in the Habendum provisions of the Original Mortgage.

SUBJECT, HOWEVER, to Permitted Encumbrances.

It is Further Agreed and Covenanted That the Original Mortgage, as previously restated, amended or supplemented, and this Supplement shall constitute one agreement and the parties hereto shall be bound by all of the terms thereof and, without limiting the foregoing.

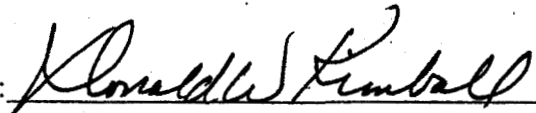
- 1. All capitalized terms not defined herein shall have the meaning given in Section 1.01 of the Existing Mortgage.
- 2. This Supplemental Mortgage is one of the Supplemental Mortgages contemplated by Article II of the Original Mortgage.

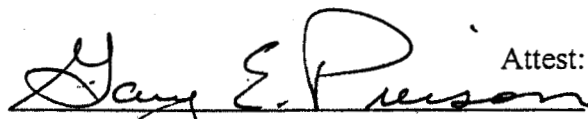
3. The Maximum Debt Limit for the Existing Mortgage, as supplemented by this Supplemental Mortgage, shall be in the aggregate as set forth in Schedule A hereto.

4. The execution, delivery, filing and recordation of this Supplemental Mortgage does not make property identified as Excepted Property in the Original Mortgage cease to be Excepted Property.

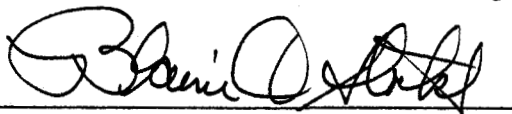
IN WITNESS WHEREOF, SOUTHWEST TRANSMISSION COOPERATIVE, INC., as Mortgagor, has caused this Supplemental Mortgage and Security Agreement to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, and UNITED STATES OF AMERICA and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, as Mortgagees, have caused this Mortgage and Security Agreement to be signed in their behalf, all as of this day and year first above written.

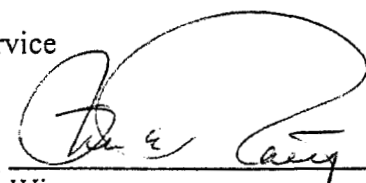
SOUTHWEST TRANSMISSION COOPERATIVE, INC., Mortgagor

By: 
Name: DONALD W. KIMBALL
Title: President and Chief Executive Officer

 Attest:
Witness GARY E. PIERSON

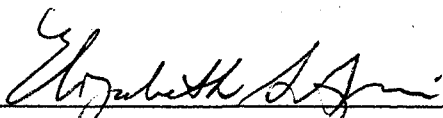
UNITED STATES OF AMERICA, Mortgagee

By: 
Name: Blaine D. Stockton
Title: ~~Assistant~~ Administrator of the Rural Utilities Service

 Attest:
Witness WILLIAM E. RAILEY

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION, Mortgagee

By: 
Name: DAVID FARRELL
Title: ASSISTANT SECRETARY TREASURER

 Attest:
WITNESS
ELIZABETH S. AGUIRRE

STATE OF ARIZONA

§

§

COUNTY OF PIMA § Cochise

I, Cheryl R. Trujillo a notary public in and for the State of Arizona, do hereby certify that Donald W. Kimball the President and Chief Executive Officer of Southwest Transmission Cooperative, Inc., personally appeared before me this day and acknowledged the due execution of the foregoing instrument.

Witness my hand and official seal this 26 day of June, 2002

Cheryl R. Trujillo
Notary Public



My commission expires: Oct. 4, 2002

DISTRICT OF COLUMBIA

§

I, James F. Mothershed, a notary public in and for the District of Columbia, do hereby certify that BLAINE D. STOCKTON, as ACTING Administrator of the Rural Utilities Service of the United States Department of Agriculture, personally appeared before me this day and acknowledged the due execution of the foregoing instrument.

Witness my hand and official seal this 15th day of JAN., 2002.

James F. Mothershed

Notary Public JAMES F. MOTHERSHED

My commission expires: June 14, 2004

COMMONWEALTH OF VIRGINIA


§

§

COUNTY OF FAIRFAX §

I, L. Karen Mora, a notary public in and for the Commonwealth of Virginia, do hereby certify that Davor Farrell, the Asst. Sec. Treas. of the National Rural Utilities Cooperative Finance Corporation, personally appeared before me this day and acknowledged the due execution of the foregoing instrument.

Witness my hand and official seal this 22nd day of January, 2002.



Notary Public L. Karen Mora

My commission expires: 1-31-04.

STATE OF ARIZONA

§

§

COUNTY OF PIMA § Cochise

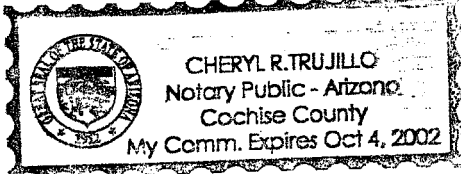
Personally appeared before me the undersigned witness, who being duly sworn, deposes and says that s/he saw the within-named Southwest Transmission Cooperative, Inc., by Donald W. Kimball, its President and Chief Executive Officer, and authorized signatory, sign, seal and as its act and deed deliver the within-written instrument for the uses and purposes therein mentioned, and that s/he witnessed the execution thereof.

Sworn to before me this 26 day of June, 2002

Witness my hand and official seal this 26 day of June, 2002.

Cheryl R. Trujillo
Notary Public

My commission expires: Oct. 4, 2002.



Gary E. Pierson
(Witness)

Name: GARY E. PIERSON

DISTRICT OF COLUMBIA §

Personally appeared before me the undersigned witness, who being duly sworn, deposes and says that s/he saw the within-named BLAINE D. STOCKTON, Acting Administrator of the Rural Utilities Service of the United States Department of Agriculture, and authorized signatory, sign, seal and as its act and deed deliver the within-written instrument for the uses and purposes therein mentioned, and that s/he witnessed the execution thereof.

Sworn to before me this 15th day of JAN., 2002

Witness my hand and official seal this 5th day of JAN., 2002.

James F. Mothershed

James F. Mothershed JAMES F. MOTHERSHED
Notary Public

My commission expires: June 14, 2004.

William E. Railey

(Witness)

WILLIAM E. RAILEY

Name: _____

COMMONWEALTH OF VIRGINIA

§

§

COUNTY OF FAIRFAX §

Personally appeared before me the undersigned witness, who being duly sworn, deposes and says that s/he saw the within-named National Rural Utilities Cooperative Finance Corporation, by **DAVID FARRELL**, its Asst. Sec. Treas., and authorized signatory, sign, seal and as its act and deed deliver the within-written instrument for the uses and purposes therein mentioned, and that s/he witnessed the execution thereof.

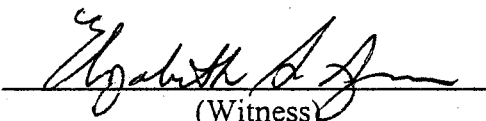
Sworn to before me this 22nd day of January, 2002

Witness my hand and official seal this 22nd day of January, 2002.



Notary Public Karen Wora

My commission expires: 1-31-04.


(Witness)

ELIZABETH S. AGUIRRE

Name: _____

Supplemental Mortgage and Security Agreement Schedule A

Maximum Debt Limit and Other Information

1. The Maximum Debt Limit is \$ 300,000,000.
2. The Original Mortgage as referred to in the first WHEREAS clause above is more particularly described as follows: Mortgage and Security Agreement, dated as of July 2, 2001 between Mortgagor, the Government and CFC.
3. The Outstanding Obligations referred to in the fourth WHEREAS clause above include the Assumption Agreements as defined in Section 1.10 of the Original Mortgage and certain additional obligations which are more particularly described as follows:

RUS Notes

<u>NOTE DESIGNATION</u>	<u>NOTE DATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE (%)</u>
TP1#1	July 2, 2001	\$ 50,555.24	9/26/2004	2
TP1#2	July 2, 2001	\$ 182,431.29	6/20/2008	2
TP1#3	July 2, 2001	\$ 205,403.49	12/15/2006	2
TP1#4	July 2, 2001	\$ 282,455.14	6/20/2008	2
TP1#5	July 2, 2001	\$ 1,047,444.00	6/26/2009	5
TP1#6	July 2, 2001	\$ 1,526,472.54	4/1/2010	5
Reimbursement Note	July 2, 2001	Based On Amount Advanced	On Demand	Variable

Federal Financing Bank Assumption Note

<u>NOTE DESIGNATION</u>	<u>NOTE DATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE (%)</u>
Assumption Note	July 2, 2001	\$62,846,857.52	1/3/2022	Variable

4. The Additional Notes described in the sixth WHEREAS clause above are more particularly described as follows:

RUS Note

<u>NOTE DESIGNATION</u>	<u>NOTE DATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE (%)</u>
Reimbursement Note	January 2, 2002	Based On Amount Advanced	On Demand	Variable

Federal Financing Bank Note

<u>NOTE DESIGNATION</u>	<u>NOTE DATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE (%)</u>
Note	January 2, 2002	\$14,000,000.00	12/31/2020	Variable

Supplemental Mortgage Schedule B

Real Property Schedule

The fee and leasehold interests in real property being explicitly added by this Supplemental Mortgage to clause (A) of the Granting Clause of the Original Mortgage are more particularly described as follows:

NOT APPLICABLE

Recording Jurisdictions

The recording jurisdictions referred to in Subclause B of Granting Clause First of the Original Mortgage are:

Arizona Counties

Cochise
Gila
Graham
Greenlee
La Paz
Maricopa
Mohave
Pima
Pinal
Santa Cruz
Yavapai

California Counties

Riverside

RUS Project Designation: AZ 31 – A8 Cochise

RUS TRANSMISSION LOAN CONTRACT SUPPLEMENT

THIS RUS TRANSMISSION LOAN CONTRACT SUPPLEMENT, dated as of January 2, 2002 (this "Supplemental Agreement"), is between **SOUTHWEST TRANSMISSION COOPERATIVE, INC.** (together with any successors and assigns, the "Borrower"), a cooperative corporation organized and existing under the laws of the State of Arizona, and the **UNITED STATES OF AMERICA** (the "Government"), acting by and through the Administrator of the Rural Utilities Service (together with any agency succeeding to the powers and rights of the Rural Utilities Service with respect to this Supplemental Agreement, "RUS");

RECITALS

WHEREAS, the Borrower assumed certain indebtedness and other obligations guaranteed by the Government, acting by and through the Administrator of RUS, which indebtedness and other obligations are evidenced by that certain Assumption and Indemnity Agreements and the Assumption FFB Note, each dated as of July 2, 2001;

WHEREAS, the Borrower has entered into that certain RUS TRANSMISSION LOAN CONTRACT, dated as of July 2, 2001, between the Borrower and the Government, acting by and through the Administrator of RUS (the "Loan Contract"), and setting forth certain premises and mutual covenants between the parties thereto concerning the Assumption and Indemnity Agreements and the Assumption FFB Note;

WHEREAS, to secure the indebtedness and other obligations evidenced by the FFB Note and to secure certain other indebtedness, the Borrower entered into that certain Mortgage and Security Agreement, dated as of July 2, 2001 (as it may have been or shall be supplemented, amended, consolidated, or restated from time to time, the "Mortgage"), by and among the Borrower, as mortgagor, the Government, acting by and through the Administrator of RUS and the National Rural Utilities Cooperative Finance Corporation ("CFC") as mortgagees (collectively, the "Mortgagees"), pursuant to which the Borrower has granted a lien on and a security interest in substantially all of its real and personal property to secure the FFB Note and the other obligations secured under the Mortgage (collectively, the "Obligations") as to which it is the obligor and such Obligations are secured Obligations of the Borrower;

WHEREAS, the Borrower has requested that RUS guarantee certain additional indebtedness of the Borrower to be borrowed from the Federal Financing Bank (the "FFB") and secured as an Obligation under the Mortgage in order to finance additional capital improvements to the Transmission System;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto agree and bind themselves and hereby amend the Loan Contract, as follows:

Article 1. Amendments to Definitions and Interpretations.

Section 1. Definitions and Interpretations.

Except as they may otherwise be specifically defined in this Supplement, capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Loan Contract. The rules for interpretation set forth in Section 1.1 of the Loan Contract shall apply to this Supplement except as specifically amended herein.

Section 2. Definitions.

Section 1.2 of the Loan Contract is hereby amended to include the following definitions which replace any definitions of the same terms in the Loan Contract and also add certain additional definitions as follows:

“Amended and Restated Schedule 1” shall mean the schedule labeled as such and attached to this Supplemental Agreement, by which Notes being executed by the Borrower and delivered to RUS, dated the date hereof, in favor of the Government to evidence the Borrower’s obligations to repay the Current Loan are described in addition to the notes originally described in the Schedule 1 attached to the Loan Contract dated as of July 2, 2001.

“Current Loan” shall mean the loan designated by RUS as “Arizona 31 - A8 Cochise” which is being made from FFB to the Borrower in the principal amount of fourteen million dollars (\$14,000,000) and that is being guaranteed by RUS to FFB as to payment.

“Current FFB Note” shall mean the additional FFB Note executed by the Borrower, dated the date of this Supplement, in favor of the Federal Financing Bank, which evidences the Borrower’s obligation to repay the Current Loan.

“FFB Notes” shall mean, collectively, the outstanding Assumption Note described in Schedule 1 of the Loan Contract, executed by the Borrower and dated July 2, 2001, and the Current FFB Note.

“Financing Documents” shall mean, collectively, the Loan Agreement, the Assumption and Indemnity Agreements, this Supplement, the FFB Notes, the Reimbursement Notes, the Mortgage, the Supplemental Mortgage, and all other agreements, documents, and certificates executed or delivered by the Borrower pursuant hereto or thereto.

"Government Notes" shall mean collectively the FFB Notes and the Reimbursement Notes, all as specifically identified on Amended and Restated Schedule 1 attached to this Supplemental Agreement.

"Loans" shall mean collectively the outstanding loans and other obligations described in Article III of the Loan Contract and the Current Loan.

"Notes" shall mean the FFB Notes, the Reimbursement Notes, and any other notes issued to the Government to refund, or in substitution for, such promissory notes, all as specifically described on Amended and Restated Schedule 1 hereto, and all amendments, supplements, extensions and replacements to, of or for such notes.

"Reimbursement Notes" shall mean, collectively, the outstanding demand note dated July 2, 2001, and the additional demand note executed by the Borrower on the date of this Supplemental Agreement, each of which evidences the Borrower's obligation to immediately repay RUS any payments which RUS makes on behalf of the Borrower on the respective FFB Note pursuant to a RUS guaranty of the same.

"RUS Commitment" shall mean collectively (i) the assumption by the Borrower on July 2, 2001 of a loan in the principal amount of \$62,846,857.52, the funds of which were previously advanced to AEPCO by the FFB and which sums are guaranteed by RUS pursuant to the Act and RUS regulations; (ii) the assumption by the Borrower on July 2, 2001 of the loans in the amounts set for in the Government Notes described in Schedule 1 to the Loan Contract; and (iii) the additional FFB Note executed by the Borrower, dated the date of this Supplemental Agreement, in favor of the Federal Financing Bank, which evidences the Borrower's obligation to repay the Current Loan.

"System" shall mean Transmission System.

Article 2. Other Amendments.

Section 9.17 of the Loan Contract is hereby amended by deleting paragraph "a" in its entirety and removing the designation "b" appearing before the subtitle "Other Regulations" and redesignating such subtitle as the title to Section 9.17.

Article 3. Special provisions for the Current Loan.

Section 1. System.

The term "System" as used in the Loan Contract as amended by this Supplemental Agreement shall include, without limitation, all of the improvements and facilities

financed in whole or in part with the proceeds of the Current Loan.

Section 2. Loan.

The term "Loan" as used in the Loan Contract as amended by this Supplemental Agreement shall include, without limitation, the Current Loan.

Section 3. Special Conditions.

RUS shall be under no obligation to issue its Current Guarantee or approve advances on account of any portion of the Current Loan, unless and until the following conditions have been satisfied:

- a. The Borrower has submitted evidence, in form and substance satisfactory to the Administrator, that the conditions in the contract of guarantee have been satisfied to the extent and in the manner prescribed by the Administrator;
- b. The Borrower has submitted evidence, in form and substance satisfactory to the Administrator, that it has duly authorized, executed, and has delivered to the Administrator to evidence its obligation to repay the Current Loan, the current FFB Note and the current Reimbursement Note in the manner prescribed by the Administrator;
- c. The Borrower has submitted evidence, in form and substance satisfactory to the Administrator, that for the Current Loan it has duly authorized, executed, delivered, recorded, and filed a supplemental mortgage or other security instrument, which is in form and substance satisfactory to the Administrator; and
- d. Each of the general conditions precedent listed under paragraphs "a" through "j" of Section 4.1 of the Loan Contract concerning the assumption of the original Loan by the Borrower has also been satisfied with respect to the Current Loan.

ARTICLE 4. Representations and Warranties of the Borrower.

To induce RUS to guarantee the Current Loan and approve advances of the proceeds of the Current FFB Note, and recognizing that RUS is relying thereon, the Borrower represents and warrants as of the date of this Supplemental Agreement, as follows:

- a. Organization; Power, Etc. The Borrower: (i) is duly organized, validly existing, and in good standing under the laws of the State of Arizona,

(ii) is duly qualified to do business and is in good standing in each jurisdiction in which the transaction of its business makes such qualification necessary; (iii) has all requisite corporate and legal power to own and operate its assets and to carry on its business and to enter into and perform its obligations under the Financing Documents; (iv) has duly and lawfully obtained and maintained all licenses, certificates, permits, authorizations and approvals which are material to the conduct of its business or which may otherwise be required by applicable laws; and (v) is eligible under the Act to obtain the financial assistance from RUS contemplated by this Supplemental Agreement.

- c. Authority. The execution, delivery and performance by the Borrower of this Supplemental Agreement and the other Financing Documents and the performance of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action and do not violate any provision of applicable Laws or of the articles of incorporation or by-laws of the Borrower or result in a breach of, or constitute a default under, any agreement, indenture or other instrument to which the Borrower is a party or by which it or its properties may be bound.
- d. Governmental Authorizations. All Governmental Authorizations which are required to be obtained by applicable Laws in connection with the execution, delivery or performance of the Financing Documents have been obtained and are in full force and effect.
- e. Binding Agreement. Each of the Financing Documents is, or when executed and delivered will be, the legal, valid, and binding obligation of the Borrower, enforceable in accordance with its terms, subject only to limitations on enforceability imposed in equity or by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.
- f. Compliance With Laws. The Borrower and each of its Subsidiaries is in compliance in all material respects with all applicable Laws, the failure to comply with which could reasonably be expected to have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Financing Documents.
- g. Litigation. Except as disclosed in writing to RUS, there are no pending legal, arbitration or governmental actions or proceedings to which the Borrower is a party or to which any of its property is subject which, if adversely determined, could reasonably be expected to have a material adverse effect on the Borrower, or on the ability of the Borrower to perform its obligations under the Financing Documents, and to the best of

the Borrower's knowledge, no such actions or proceedings are threatened or contemplated.

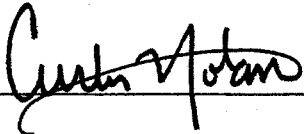
- h. Financial Statements. All financial statements of the Borrower delivered to RUS in connection with this Supplemental Agreement fully and fairly present the financial condition of the Borrower and the results of its operations in conformity with Accounting Requirements. Since the date of the last audited financial statements delivered to RUS, there has been no material adverse change in the financial condition or operations of the Borrower.
- i. Budgets; Projections; Etc. All budgets, projections, appraisals, feasibility studies and other financial information submitted by the Borrower to RUS, as updated by the Borrower from time to time and submitted to RUS, in connection with the transactions contemplated by the Financing Documents were reasonable at the time so submitted; and, as of the date hereof, no fact has come to light, and no event or transaction has occurred, which would cause such information, as so updated, to be inaccurate or unreasonable.
- j. Location of Properties. All properties of the Borrower are located in the States and Counties listed on Schedule B to the Mortgage as supplemented.
- k. Principal Place of Business; Records. The principal place of business and chief executive office of the Borrower is at Benson, Arizona.
- l. Subsidiaries. The Borrower's Subsidiaries are listed on Schedule 4 to the existing Loan Contract, and the Borrower has no Subsidiaries except as the Borrower has disclosed on Schedule 4.
- m. Defaults Under Other Agreements. The Borrower is not in default under any agreement or instrument to which it is a party or to which any of its property is subject that could reasonably be expected to have a material adverse effect on the financial condition, operations, properties, profits or business of the Borrower.
- n. Survival. All representations and warranties made by the Borrower herein or made in any certificate delivered pursuant hereto shall survive the execution hereof.
- o. Title to Property. The Borrower holds good and marketable title to all of its real property and owns all of its personal property free and clear of any lien except Permitted Encumbrances, as defined in the Mortgage.

- p. Survival. All representations and warranties made by the Borrower herein or made in any certificate delivered pursuant hereto shall survive the execution and delivery to the Federal Financing Bank of the FFB Note and the execution and delivery to RUS of the Reimbursement Note.

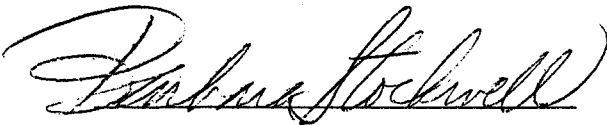
It is further agreed and covenanted that the Original Loan Contract, as previously restated, amended or supplemented, and this Supplemental Agreement shall constitute one agreement and the parties hereto shall be bound by all of the terms thereof and, without limitation, the foregoing.

IN WITNESS WHEREOF, the parties here to have caused this Supplemental Agreement to be duly executed, the Borrower's execution to be under seal, as of the day and year first above written above.


SOUTHWEST TRANSMISSION
COOPERATIVE, INC. , Borrower

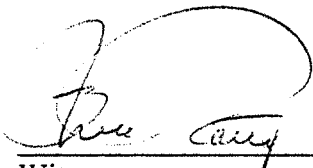
By: 

ATTEST:



UNITED STATES OF AMERICA, acting by and
through the Administrator of the Rural Utilities
Service

By: 
for Hilda Gay Legg, Administrator


Witness
WILLIAM E. RAILEY

FIRST AMENDED SCHEDULE 1

**To the RUS Transmission Loan Contract
dated as of July 2, 2001, between
Southwest Transmission Corporation, Inc.
And the United States of America**

Terms of Loans

OUTSTANDING NOTES PAYABLE TO RUS:

<u>NOTE DESIGNATION</u>	<u>NOTE DATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE (%)</u>
TP1#1	July 2, 2001	\$ 50,555.24	9/26/2004	2
TP1#2	July 2, 2001	\$ 182,431.29	6/20/2008	2
TP1#3	July 2, 2001	\$ 205,403.49	12/15/2006	2
TP1#4	July 2, 2001	\$ 282,455.14	6/20/2008	2
TP1#5	July 2, 2001	\$ 1,047,444.00	6/26/2009	5
TP1#6	July 2, 2001	\$ 1,526,472.54	4/1/2010	5
Reimbursement Note	July 2, 2001	Based On Amount Advanced	On Demand	Variable

CURRENT NOTES PAYABLE TO RUS:

<u>NOTE DESIGNATION</u>	<u>NOTE DATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE (%)</u>
Reimbursement Note	Jan. 2, 2002	Based On Amount Advanced	On Demand	Variable

OUTSTANDING NOTE PAYABLE TO FFB:

<u>NOTE DESIGNATION</u>	<u>NOTE DATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE (%)</u>
Assumption Note Variable	July 2, 2001	\$62,846,857.52	1/3/2022	Variable

CURRENT NOTE PAYABLE TO FFB:

<u>NOTE DESIGNATION</u>	<u>NOTE DATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE (%)</u>
A8	Jan. 2, 2002	\$14,000,000.00	12/31/2020	Variable

(FFB-REIM.NTE)
5/97

ARIZONA 31-A8 COCHISE

FFB Note Identifier:

RUS Note Identifier:

Benson, Arizona
January 2, 2002

REIMBURSEMENT NOTE

SOUTHWEST TRANSMISSION COOPERATIVE, INC. (the "Borrower"), which term includes any successors or assigns), a corporation organized and existing under the laws of the State of Arizona, for value received, promises to pay on demand to the order of the UNITED STATES OF AMERICA (the "Government"), acting through the Administrator of the Rural Utilities Service ("RUS"), at the United States Treasury, Washington, D.C., a sum equal to:

(1) all amounts, including, without limitation, principal and interest (the "Reimbursed Amount"), paid by the Government from time to time pursuant to that certain guarantee by RUS (the "RUS Guarantee"), made by RUS to the Federal Financing Bank ("FFB") of amounts payable to FFB under a note dated January 2, 2002, made by the Borrower payable to FFB and guaranteed by RUS (the "FFB Note") pursuant to the Rural Electrification Act of 1936, as amended (7 U.S.C. 901 *et seq.*), Section 6 of the Federal Financing Bank Act of 1973 (12 U.S.C. §2285), and the Note Purchase Commitment and Servicing Agreement, as amended and as it may be amended, supplemented, or restated from time to time, dated as of January 1, 1992, between FFB and RUS (all such amounts hereinafter collectively called the "Principal Amount"), and

(2) with interest on the Principal Amount from the respective date of such payment by RUS to FFB, at the Late Charge Rate as that term is defined in the FFB Note, and

(3) administrative costs and penalty charges assessed in accordance with applicable regulations, and

(4) any and all costs and expenses incurred in connection with the exercise of rights or the enforcement of remedies, as set forth in the Security Instrument, as hereinafter defined.

The obligations of the Borrower hereunder are absolute and unconditional, irrespective of any defense or any right to set off, recoupment or counterclaim it might otherwise have against the Government.

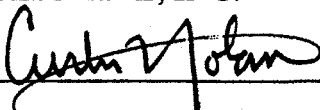
So long as FFB has received all amounts then due to it under the RUS Guarantee, the Borrower agrees to pay all amounts due on this Note directly to RUS. Nothing herein shall limit the Government's rights of subrogation which may arise as a result of payments made by RUS pursuant to the RUS Guarantee.

This Note is one of several notes permitted to be executed and delivered by, and is entitled to the benefits and security of, the Mortgage and Security Agreement, dated as of July 2, 2001, made by and among the Borrower, the Government and National Rural Utilities Cooperative Finance Corporation, as it may have heretofore been, or as it may hereinafter be, amended, supplemented, restated, or consolidated from time to time in accordance with its terms, being, collectively, the Security Instrument (the "Security Instrument"). The Security Instrument provides that all notes shall be equally and ratably secured thereby and reference is hereby made to the Security Instrument for a description of the property pledged, the nature and extent of the security and the rights, powers, privileges, and remedies of, the holders of notes with respect thereto.

Neither the execution and delivery of this Note by the Borrower to the Government, nor the failure of the Government to exercise any of its rights, powers, privileges or remedies under the Security Instrument shall be deemed to be a waiver of any right, power, privilege or remedy of the Government, as a holder of this Note, under the Security Instrument.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

SOUTHWEST TRANSMISSION
COOPERATIVE, INC.

By: 

Name: CURTIS NOLAN

Title: CHAIRMAN

(Seal)

Attest:



Secretary

FOR FFB USE ONLY:

Note Identifier: _____

Purchase Date: _____

FOR RUS USE ONLY:

RUS
Note
Number: _____Last Day
for an
Advance (¶3)March 31, 2006Maximum
Principal
Amount (¶4)\$14,000,000Final
Maturity
Date (¶5)December 31, 2020First Principal
Payment
Date (¶8)March 31, 2004Security
Instrument
(¶24)Mortgage and Security
Agreement, dated as of
July 2, 2001, made by
and among Southwest
Transmission
Cooperative, Inc.,
United States of
America and National
Rural Utilities
Cooperative Finance
Corporation
(ARIZONA 31-A8 COCHISE)

Note

Date January 2, 2002Place
ofIssue Benson,
Arizona

FUTURE ADVANCE PROMISSORY NOTE

1. Promise to Pay.

FOR VALUE RECEIVED, SOUTHWEST TRANSMISSION COOPERATIVE, INC. (the "Borrower," which term includes any successors or assigns) promises to pay the FEDERAL FINANCING BANK ("FFB," which term includes any successors or assigns) at the times, in the manner, and with interest at the rates to be established as hereinafter

(5) with respect to each Advance for which the Borrower selects a Maturity Date that will occur on or after the particular date specified on page 1 of this Note as being the "First Principal Payment Date," the particular method for the repayment of principal that the Borrower selects for the respective Advance from among the options described in subparagraph (b) of paragraph 8 of this Note; and

(6) with respect to each Advance for which the Borrower selects a Maturity Date that will occur on or after the fifth anniversary of the Requested Advance Date specified in the respective Advance Request, the particular prepayment/refinancing privilege that the Borrower elects for such Advance from between the options described in subparagraphs (b) and (c) of paragraph 16 of this Note.

(b) To be effective, an Advance Request must first be delivered to RUS for approval and be approved by RUS in writing, and such Advance Request, together with written notification of RUS's approval thereof, must be received by FFB on or before the third Business Day before the Requested Advance Date specified in such Advance Request.

(c) FFB shall make each requested Advance on the Requested Advance Date specified in the respective Advance Request, subject to the provisions of the Agreement describing certain circumstances under which a requested Advance shall be made on a later date; provided, however, that no Advance shall be made under this Note after the particular date specified on page 1 of this Note as being the "Last Day for an Advance."

(d) FFB shall make each requested Advance by electronic funds transfer to the particular bank account specified in the respective Advance Request.

(e) The Borrower hereby agrees that each Advance made by FFB in accordance with an RUS-approved Advance Request delivered to FFB shall reduce, by the amount of the respective Advance made, FFB's remaining commitment to make Advances under this Note.

4. Principal Amount of Advances; Maximum Principal Amount.

The principal amount of each Advance shall be the Requested Advance Amount specified in the respective Advance Request; provided, however, that the aggregate principal amount of all Advances made under this Note shall not exceed the particular amount specified on page 1 of this Note as being the "Maximum Principal Amount."

5. Maturity Dates for Advances.

Each Advance shall mature on the Maturity Date specified in the respective Advance Request, provided that such Maturity Date meets the following criteria:

(a) the Maturity Date for the respective Advance must be a "Payment Date" (as that term is defined in paragraph 7 of this Note);

(b) the Maturity Date for the respective Advance may not be a date that will occur after the particular date specified on page 1 of this Note as being the "Final Maturity Date" (such date being the "Final Maturity Date"); and

(c) the period of time between the Requested Advance Date for the respective Advance and the Maturity Date for such Advance may not be less than one complete calendar quarter.

6. Computation of Interest on Advances.

(a) Subject to paragraphs 11 and 17 of this Note, interest on the outstanding principal of each Advance shall accrue from the date on which the respective Advance is made to the date on which such principal is due.

(b) Interest on each Advance shall be computed on the basis of (1) actual days elapsed from (but not including) the date on which the respective Advance is made (for the first payment of interest due under this Note for such Advance) or the date on which the payment of interest was last due (for all other payments of interest due under this Note for such Advance), to (and including) the date on which the payment of interest is next due; and (2) a year of 365 days (except in calendar years including February 29, when the basis shall be a 366-day year).

(c) The basic interest rate for each Advance shall be established by FFB, as of the date on which the respective Advance is made, on the basis of the determination made by the Secretary of the Treasury pursuant to section 6(b) of the Federal Financing Bank Act of 1973, as amended (codified at 12 U.S.C. § 2281 et seq.) (the "FFB Act"); provided, however, that the shortest maturity used as the basis for any rate determination shall be the remaining maturity of the most recently auctioned United States Treasury bills having the shortest maturity of all United States Treasury bills then being regularly auctioned.

(d) In the event that (1) the Borrower has selected for any Advance a Maturity Date that will occur on or after the fifth anniversary of the Requested Advance Date for such Advance, and (2) the Borrower has elected for such Advance a prepayment/refinancing privilege described in subparagraph (c) of paragraph 16 of this Note, then the interest rate for such Advance shall also include a price (expressed in terms of a basis point increment to the applicable basic interest rate) for the particular prepayment/refinancing privilege that the Borrower selected, which price shall be established by FFB on the basis of a determination made by FFB as to the difference between (A) the estimated market yield of a notional obligation if such obligation were to (i) be issued by the Secretary of the Treasury, (ii) have a maturity comparable to the maturity of such Advance, and (iii) include prepayment and refinancing privileges identical to the particular prepayment/refinancing privilege that the Borrower elected for such Advance, and (B) the estimated market yield of a notional obligation if such obligation were to (i) be issued by the Secretary of the Treasury, (ii) have a maturity comparable to the maturity of such Advance, but (iii) not include such prepayment and refinancing privileges.

7. Payment of Interest; Payment Dates.

Interest accrued on the outstanding principal amount of each Advance shall be due and payable quarterly on the last day of each calendar quarter (each such day being a "Payment Date"), beginning (except as provided below) on the first Payment Date to occur after the date on which the respective Advance is made, up through and including the Maturity Date of such Advance; provided, however, that with respect to each Advance that is made in the last month of any calendar quarter, payments of accrued interest on the outstanding principal amount of the respective Advance shall be due beginning on the second Payment Date to occur after the date on which such Advance is made.

8. Repayment of Principal; Principal Repayment Options.

(a) The principal amount of each Advance shall be payable in quarterly installments, which installments shall be due beginning on the particular date specified on page 1 of this Note as being the "First Principal Payment Date" (such date being the "First Principal Payment Date"), and shall be due on each Payment Date to occur thereafter until the principal amount of the respective Advance is repaid in full on or before the Final Maturity Date; provided, however, that with respect to each Advance that is made after the First Principal Payment Date, principal installments shall be due beginning on the second Payment Date to occur after

the date on which the respective Advance is made; and provided, further, however, that for so long as the Borrower has not selected a method for the repayment of principal for any of the Advances made under this Note from among the options described in subparagraph (b) of this paragraph 8, the First Principal Payment Date of this Note may be deferred by the mutual agreement of the Borrower, RUS, and FFB, provided that a written amendment to this Note reciting the new and later First Principal Payment Date shall have been executed by the Borrower, approved by RUS, and received by FFB on or before the third Business Day before the First Principal Payment Date that is in effect immediately before such deferral.

(b) At the time that the Borrower first selects for any Advance a Maturity Date that will occur on or after the First Principal Payment Date, the Borrower must also select, subject to RUS approval, a method for the repayment of principal of such Advance (each such Advance being an "Amortizing Advance") from among the following options:

(1) "equal principal installments" -- the amount of each quarterly principal installment shall be substantially equal to the amount of every other quarterly principal installment and shall be sufficient, when added to all other such quarterly installments of equal principal, to repay the principal amount of such Amortizing Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected a Maturity Date for such Amortizing Advance that will occur before the Final Maturity Date);

(2) "graduated principal installments" -- the amount of each of the first one-third (or nearest number of payments that rounds to one-third) of the total number of quarterly principal installments shall be substantially equal to one-half of the amount of each of the remaining quarterly principal installments, and shall be sufficient, when added to all other such quarterly installments of graduated principal, to repay the principal amount of such Amortizing Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected a Maturity Date for such Amortizing Advance that will occur before the Final Maturity Date); or

(3) "level debt service" -- the amount of each quarterly payment consisting of a principal installment and accrued interest shall be substantially equal to the amount of every other quarterly payment consisting of a principal

installment and accrued interest, and shall be sufficient, when added to all other such level quarterly payments consisting of a principal installment and accrued interest, to repay the principal amount of such Amortizing Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected a Maturity Date for such Amortizing Advance that will occur before the Final Maturity Date).

(c) For each Amortizing Advance, the amount of principal that shall be due and payable on each of the dates specified in subparagraph (a) of this paragraph 8 shall be the amount of the principal installment due under a principal repayment schedule for the respective Amortizing Advance that is computed in accordance with the principles of the particular method for the repayment of principal that is selected by the Borrower for such Amortizing Advance from among the options described in subparagraph (b) of this paragraph 8. Except at the times described in the immediately following sentence, the method for the repayment of principal that is selected by the Borrower for any Amortizing Advance, and the resulting principal repayment schedule that is so computed for such Amortizing Advance, may not be changed. Notwithstanding the foregoing, with respect to each Amortizing Advance for which the Borrower has selected a Maturity Date that will occur before the Final Maturity Date, the Borrower may change the particular method for the repayment of principal that was selected by the Borrower for the respective Amortizing Advance from either the "equal principal installments" method or the "graduated principal installments" method to the "level debt service" method at the time (if ever) that the Borrower elects to extend the maturity of such Amortizing Advance (as provided in paragraph 15 of this Note), effective as of the effective date of such maturity extension, or at the time (if ever) that the Borrower elects to refinance the outstanding principal amount of such Amortizing Advance (as provided in paragraph 18 of this Note), effective as of the effective date of such refinancing, and the principal repayment schedule for such Amortizing Advance shall thereupon be newly computed in accordance with the "level debt service" method for the repayment of principal. After the Borrower has selected the Final Maturity Date as the Maturity Date for any Amortizing Advance, the Borrower may so change the particular method for the repayment of principal of any Amortizing Advance, and the principal repayment schedule for such Amortizing Advance shall be so newly computed, only at the time (if ever) that the Borrower elects to refinance the outstanding principal amount of such Amortizing Advance (as provided in paragraph 18 of this Note), effective as of the effective date of such refinancing.

(d) With respect to each Advance that has a Maturity Date that will occur before the Final Maturity Date, the entire unpaid principal amount of the respective Advance shall be payable on such Maturity Date, subject to extensions of the maturity of such Advance (as provided in paragraph 15 of this Note).

(e) Notwithstanding which of the methods for the repayment of principal described in subparagraph (b) of this paragraph 8 is selected by the Borrower for any Amortizing Advance, the aggregate of all quarterly payments of principal and interest on such Amortizing Advance shall be such as will repay the entire principal amount of such Amortizing Advance, and pay all interest accrued thereon, on or before the Final Maturity Date.

9. Fee.

A fee to cover expenses and contingencies, assessed by FFB pursuant to section 6(c) of the FFB Act, shall accrue on the outstanding principal amount of each Advance from the date on which the respective Advance is made to the date on which the principal amount of such Advance is due. The fee on each Advance shall be equal to one-eighth of one percent (0.125%) per annum of the unpaid principal balance of such Advance. The fee on each Advance shall be computed in the same manner as accrued interest is computed under paragraph 6(b) of this Note, and shall be due and payable at the same times as accrued interest is due and payable under paragraph 7 of this Note (adjusted as provided in paragraph 10 of this Note if a Payment Date is not a Business Day). The fee on each Advance shall be credited to RUS as required by section 505(c) of the Federal Credit Reform Act of 1990, as amended (codified at 2 U.S.C. § 661d(c)).

10. Business Days.

(a) Whenever any Payment Date, the Maturity Date for any Advance, or the Final Maturity Date shall fall on a day on which either FFB or the Federal Reserve Bank of New York is not open for business, the payment that would otherwise be due on such Payment Date, Maturity Date, or Final Payment Date, as the case may be, shall be due on the first day thereafter on which FFB and the Federal Reserve Bank of New York are both open for business (any such day being a "Business Day").

(b) In the event that any Payment Date falls on a day other than a Business Day, then the extension of time for making the payment that would otherwise be due on such Payment Date shall be (1) taken into account in establishing the interest rate for the respective Advance, (2) included in computing interest due in

connection with such payment, and (3) excluded in computing interest due in connection with the next payment.

(c) In the event that the Maturity Date for any Advance or the Final Maturity Date falls on a day other than a Business Day, then the extension of time for making the payment that would otherwise be due on such Maturity Date or the Final Maturity, as the case may be, shall be (1) taken into account in establishing the interest rate for such Advance, and (2) included in computing interest due in connection with such payment.

11. Late Payments.

(a) In the event that any payment of any amount owing under this Note is not made when and as due (any such amount being then an "Overdue Amount"), then the amount payable shall be such Overdue Amount plus interest thereon (such interest being the "Late Charge") computed in accordance with this subparagraph (a).

(1) The Late Charge shall accrue from the scheduled date of payment for the Overdue Amount (taking into account paragraph 10 of this Note) to the date on which payment is made.

(2) The Late Charge shall be computed on the basis of (A) actual days elapsed from (but not including) the scheduled date of payment for such Overdue Amount (taking into account paragraph 10 of this Note) to (and including) the date on which payment is made, and (B) a year of 365 days (except in calendar years including February 29, when the basis shall be a 366-day year).

(3) The Late Charge shall accrue at a rate (the "Late Charge Rate") equal to one and one-half times the rate to be determined by the Secretary of the Treasury taking into consideration the prevailing market yield on the remaining maturity of the most recently auctioned 13-week United States Treasury bills.

(4) The initial Late Charge Rate shall be in effect until the earlier to occur of either (A) the date on which payment of the Overdue Amount and the amount of the accrued Late Charge is made, or (B) the first Payment Date to occur after the scheduled date of payment for such Overdue Amount. In the event that the Overdue Amount and the amount of the accrued Late Charge are not paid on or before the such Payment Date, then the amount payable shall be the sum of the Overdue Amount and the amount of the accrued Late

Charge, plus a Late Charge on such sum accruing at a new Late Charge Rate to be then determined in accordance with the principles of clause (3) of this subparagraph (a). For so long as any Overdue Amount remains unpaid, the Late Charge Rate shall be redetermined in accordance with the principles of clause (3) of this subparagraph (a) on each Payment Date to occur thereafter, and shall be applied to the Overdue Amount and all amounts of the accrued Late Charge to the date on which payment of the Overdue Amount and all amounts of the accrued Late Charge is made.

(b) Nothing in subparagraph (a) of this paragraph 11 shall be construed as permitting or implying that the Borrower may, without the written consent of FFB, modify, extend, alter or affect in any manner whatsoever (except as explicitly provided herein) the right of FFB to receive any and all payments on account of this Note on the dates specified in this Note.

12. Final Due Date.

Notwithstanding anything in this Note to the contrary, all amounts outstanding under this Note remaining unpaid as of the Final Maturity Date shall be due and payable on the Final Maturity Date.

13. Manner of Making Payments.

(a) For so long as FFB is the holder of this Note and RUS is the loan servicing agent for FFB (as provided in the Agreement), each payment under this Note shall be made in immediately available funds by electronic funds transfer to the account specified from time to time by RUS, as loan servicing agent for FFB, in a written notice delivered by RUS to the Borrower.

(b) In the event that FFB is the holder of this Note but RUS is not the loan servicing agent for FFB, then each payment under this Note shall be made in immediately available funds by electronic funds transfer to the account specified from time to time by FFB in a written notice delivered by FFB to the Borrower.

(c) In the event that FFB is not the holder of this Note, then each payment under this Note shall be made in the manner and to the account specified from time to time by the holder in a written notice delivered by the holder to the Borrower.

14. Application of Payments.

Each payment made on this Note shall be applied, first, to the payment of Late Charges (if any) payable under paragraphs 11 and 19 of this Note, then to the payment of premiums (if any) payable under paragraphs 17 and 18 of this Note, then to the payment of unpaid accrued interest, then on account of outstanding principal, and then to the payment of the fee payable under paragraph 9 of this Note.

15. Maturity Extensions.

(a) With respect to each Advance for which the Borrower has selected a Maturity Date that will occur before the Final Maturity Date (each such Maturity Date being an "Interim Maturity Date"), the Borrower may, effective as of such Interim Maturity Date, elect to extend the maturity of all or any portion of the outstanding principal amount of the respective Advance (subject to subparagraph (c) of this paragraph 15) to a new Maturity Date to be selected by the Borrower in the manner and subject to the limitations specified in this subparagraph (a) (each such election being a "Maturity Extension Election"; each such elective extension of the maturity of any Advance that has an Interim Maturity Date being a "Maturity Extension"; and the Interim Maturity Date that is in effect for an Advance immediately before any such elective Maturity Extension being, from and after such Maturity Extension, the "Maturity Extension Effective Date").

(1) Except under the circumstances described in clause (3) of this subparagraph (a), the Borrower shall deliver to FFB (with a copy to RUS) written notification of each Maturity Extension Election, in the form of notification attached to this Note as Annex B-1 (each such notification being a "Maturity Extension Election Notice"), making reference to the "Advance Identifier" (as that term is defined in the Agreement) that FFB assigned to such Advance (as provided in the Agreement) and specifying, among other things, the following:

(A) the amount of the outstanding principal of the such Advance with respect to which the Borrower elects to extend the maturity (subject to subparagraph (c) of this paragraph 15); and

(B) the new Maturity Date that the Borrower selects to be in effect for such principal amount after the respective Maturity Extension Effective Date, which date:

(i) may be either a new Interim Maturity Date or the Final Maturity Date; and

(ii) in the event that the Borrower selects a new Interim Maturity Date as the new Maturity Date for any Advance, must meet the criteria for Maturity Dates prescribed in paragraph 5 of this Note (provided, however, that, for purposes of selecting a new Maturity Date in connection with a Maturity Extension Election, the reference to "the Requested Advance Date for the respective Advance" in subparagraph (c) of paragraph 5 of this Note shall be deemed to be a reference to "the respective Maturity Extension Effective Date").

(2) To be effective, a Maturity Extension Election Notice must be received by FFB on or before the third Business Day before the Interim Maturity Date in effect for the respective Advance immediately before such Maturity Extension.

(3) In the event that either of the circumstances described in subclause (A) or (B) of the next sentence occurs, then a Maturity Extension Election Notice (in the form of notice attached to this Note as Annex B-2), to be effective, must first be delivered to RUS for approval and be approved by RUS in writing, and such Maturity Extension Election Notice, together with written notification of RUS's approval thereof, must be received by FFB on or before the third Business Day before the Interim Maturity Date in effect for the respective Advance immediately before such Maturity Extension. RUS approval of a Maturity Extension Election Notice will be required under either of the following circumstances:

(A) (i) any payment of any amount owing under this Note is not made by the Borrower when and as due,
(ii) payment is made by RUS in accordance with the guarantee set forth at the end of this Note, and
(iii) RUS delivers notice to both the Borrower and FFB advising each of them that each Maturity Extension Election Notice delivered by the Borrower after the date of such notice shall require the approval of RUS;
or

(B) FFB at any time delivers notice to both the Borrower and RUS advising each of them that each Maturity Extension Election Notice delivered by the

Borrower after the date of such notice shall require the approval of RUS.

(b) With respect to any Advance that has an Interim Maturity Date, in the event that FFB does not receive a Maturity Extension Election Notice (and, if required under clause (3) of subparagraph (a) of this paragraph 15, written notification of RUS's approval thereof) on or before the third Business Day before such Interim Maturity Date, then the maturity of such Advance shall be extended automatically in the manner and subject to the limitations specified in this subparagraph (b) (each such automatic extension of the maturity of any Advance that has an Interim Maturity Date also being a "Maturity Extension"; and the Interim Maturity Date that is in effect for an Advance immediately before any such automatic Maturity Extension also being, from and after such Maturity Extension, the "Maturity Extension Effective Date").

(1) The new Maturity Date for such Advance shall be the immediately following quarterly Payment Date.

(2) If the Interim Maturity Date that is in effect for such Advance immediately before such automatic Maturity Extension is:

(A) a Payment Date that occurs before the First Principal Payment Date (i.e., such Advance is not an Amortizing Advance), then the amount of principal that will have its maturity extended automatically shall be the entire outstanding principal amount of such Advance;

(B) the Payment Date that immediately precedes the First Principal Payment Date, then the method for the repayment of principal that shall apply to such Advance from and after the respective Maturity Extension Effective Date shall be the "level debt service" method; and

(C) either the First Principal Payment Date or a Payment Date that occurs after the First Principal Payment Date (i.e., such Advance is an Amortizing Advance), then:

(i) the amount of principal that will have its maturity extended automatically shall be the outstanding principal amount of such Advance less the principal installment that is due on the

respective Maturity Extension Effective Date (as provided in subparagraph (c) of this paragraph 15; and

(ii) the method for the repayment of principal that shall apply to such Advance from and after the respective Maturity Extension Effective Date shall be the same method that applied to such Advance immediately before such Maturity Extension Effective Date.

(c) In the event that the maturity of any Amortizing Advance that has an Interim Maturity Date is extended under either subparagraph (a) or (b) of this paragraph 15, then the principal installment that is due on the respective Maturity Extension Effective Date, in accordance with the principal repayment schedule that applied to such Amortizing Advance immediately before such Maturity Extension Effective Date, shall nevertheless be due and payable on such Maturity Extension Effective Date notwithstanding such Maturity Extension.

(d) In the event that the maturity of any Advance that has an Interim Maturity Date is extended under either subparagraph (a) or (b) of this paragraph 15, then the basic interest rate for such Advance, from and after the respective Maturity Extension Effective Date, shall be the particular rate that is established by FFB, as of such Maturity Extension Effective Date, in accordance with the principles of subparagraph (c) of paragraph 6 of this Note.

(e) In the event that (1) the maturity of any Advance that has an Interim Maturity Date is extended under either subparagraph (a) or (b) of this paragraph 15, and (2) the Maturity Date for such extended Advance is a date that will occur before the fifth anniversary of the respective Maturity Extension Effective Date, then the prepayment/refinancing privilege described in subparagraph (b) of paragraph 16 of this Note shall apply automatically to such Advance.

(f) In the event that (1) the Borrower makes a Maturity Extension Election with respect to any Advance that has an Interim Maturity Date, and (2) the Borrower selects as the Maturity Date for such extended Advance a new Maturity Date that will occur on or after the fifth anniversary of the respective Maturity Extension Effective Date, then the Borrower must elect a prepayment/refinancing privilege for such extended Advance from between the options described in subparagraphs (b) and (c) of paragraph 16 of this Note (provided, however, that each of the

references to "the Requested Advance Date for such Advance" in subparagraph (c) of paragraph 16 of this Note shall be deemed to be a reference to "the respective Maturity Extension Effective Date"). The Maturity Extension Election Notice delivered by the Borrower in connection with each such Maturity Extension Election must also specify the particular prepayment/refinancing privilege that the Borrower elects for the respective extended Advance. In the event that the Borrower elects for any such extended Advance a prepayment/refinancing privilege described in subparagraph (c) of paragraph 16 of this Note, then the interest rate for such extended Advance, from and after the respective Maturity Extension Effective Date, shall include a price (expressed in terms of a basis point increment to the applicable basic interest rate) for the particular prepayment/refinancing privilege that the Borrower elects, which price shall be established by FFB, as of such Maturity Extension Effective Date, in accordance with the principles of subparagraph (d) of paragraph 6 of this Note.

(g) In the event that the maturity of any Amortizing Advance that has an Interim Maturity Date is extended under either subparagraph (a) or (b) of this paragraph 15, then the outstanding principal amount of such Amortizing Advance, after the respective Maturity Extension Effective Date, shall be due and payable in accordance with this subparagraph (g).

(1) With respect to each Amortizing Advance to which either the "equal principal installments" method or the "graduated principal installments" method for the repayment of principal applies, the amount of the quarterly principal installments that will be due after the respective Maturity Extension Effective Date shall be equal to the amount of the quarterly installments of equal principal or graduated principal, as the case may be, that were due in accordance with the principal repayment schedule that applied to such Amortizing Advance immediately before such Maturity Extension Effective Date.

(2) With respect to each Amortizing Advance to which the "level debt service" method for the repayment of principal applies, the amount of the level quarterly payments consisting of a principal installment and accrued interest that will be due after the respective Maturity Extension Effective Date shall be newly computed so that the amount of each such quarterly payment consisting of a principal installment and accrued interest (taking into account the new interest rate that is in effect for such Amortizing Advance from and after such Maturity Extension Effective Date) shall be substantially equal to the amount

of every other quarterly payment consisting of a principal installment and accrued interest, and shall be sufficient, when added to all other such newly-computed-level quarterly payments consisting of a principal installment and accrued interest, to repay the outstanding principal amount of such Amortizing Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected an Interim Maturity Date for such Amortizing Advance).

(3) For each such Amortizing Advance, the quarterly installments of equal principal or graduated principal, or the newly-computed level quarterly payments consisting of a principal installment and accrued interest, as the case may be, shall be due beginning on the first Payment Date to occur after the respective Maturity Extension Effective Date, and shall be due on each Payment Date to occur thereafter up through and including the earlier to occur of either (A) the new Maturity Date for such extended Amortizing Advance, on which date the entire unpaid principal amount of such extended Amortizing Advance shall also be payable, subject to further Maturity Extensions if the new Maturity Date is an Interim Maturity Date, or (B) the date on which the entire principal amount of such extended Amortizing Advance, and all unpaid interest (and Late Charges, if any) accrued thereon, are paid.

(h) The maturity of each Advance may be extended more than once as provided in this paragraph 15, but upon the occurrence of the Final Maturity Date, no further Maturity Extensions may occur.

16. Prepayment/Refinancing Privileges.

(a) The prepayment/refinancing privilege described in subparagraph (b) of this paragraph 16 shall apply automatically to each Advance that has a Maturity Date that will occur before the fifth anniversary of the Requested Advance Date specified in the respective Advance Request. With respect to each Advance for which the Borrower has selected a Maturity Date that will occur on or after the fifth anniversary of the Requested Advance Date specified in the respective Advance Request, the Borrower must elect, at the time of requesting the respective Advance, the particular prepayment/refinancing privilege that is to apply to such Advance from between the options described in subparagraphs (b) and (c) of this paragraph 16.

(b) "Market Value Premium (or Discount)" -- The Borrower shall have the privilege to prepay the respective Advance (as provided in paragraph 17 of this Note) or to refinance such Advance (as provided in paragraph 18 of this Note) at a prepayment or refinancing price that will include, in either case, a premium (or discount credit) equal to the difference between:

(1) the price for such Advance that would, if such Advance (including all unpaid interest accrued thereon through the date of prepayment or refinancing, as the case may be) were purchased by a third party and held to the Maturity Date of such Advance, produce a yield to the third-party purchaser for the period from the date of purchase to the Maturity Date of such Advance substantially equal to the interest rate that would be set on a loan from the Secretary of the Treasury to FFB to purchase an obligation having a payment schedule identical to the payment schedule of such Advance for the period from the date of prepayment or refinancing, as the case may be, to the Maturity Date of such Advance; and

(2) the sum of:

(A) the outstanding principal amount of such Advance on the date of prepayment or refinancing, as the case may be (after taking into account the payment of the principal installment (if any) that is due on date of prepayment or refinancing, as the case may be, in accordance with the principal repayment schedule that applied to such Advance immediately before such prepayment or refinancing); and

(B) all unpaid interest accrued on such Advance through the date of prepayment or refinancing, as the case may be,

(the difference between the price described in clause (1) of this subparagraph (b) and the sum of the amounts described in clause (2) of this subparagraph (b) being the "Market Value Premium (or Discount)"). The price described in clause (1) of this subparagraph (b) shall be calculated by the Secretary of the Treasury as of the close of business on the second Business Day before the date of prepayment or refinancing, as the case may be, using standard calculation methods of the United States Department of the Treasury.

(c) "Fixed Premium" -- The Borrower shall have the privilege to prepay the respective Advance (as provided in paragraph 17 of this Note) or to refinance such Advance (as provided in paragraph 18 of this Note) at a prepayment or refinancing price that will include, in either case, a fixed premium determined by the Borrower having made, at the time of requesting such Advance, both the election and selection described in this subparagraph (c).

(1) "No-Call Period Option Election" -- First, the Borrower must elect whether or not the fixed premium prepayment/refinancing privilege that is to apply to the respective Advance shall include a 5-year period during which such Advance shall not be eligible for any prepayment or refinancing (such time period being a "No-Call Period"). The options are:

(A) "yes" -- the Borrower elects to have the fixed premium prepayment/refinancing privilege include a 5-year No-Call Period, i.e., the Borrower shall have the privilege to prepay the respective Advance (as provided in paragraph 17 of this Note) or to refinance such Advance (as provided in paragraph 18 of this Note) on or after (but not before):

(i) the fifth anniversary of the Requested Advance Date for such Advance (if such fifth anniversary date is a Payment Date); or

(ii) the first Payment Date to occur after the fifth anniversary of the Requested Advance Date for such Advance (if such fifth anniversary date is not a Payment Date),

(in either case, such date being the "First Call Date" for such Advance); or

(B) "no" -- the Borrower elects to have the fixed premium prepayment/refinancing privilege not include a 5-year No-Call Period, i.e., the Borrower shall have the privilege to prepay the respective Advance (as provided in paragraph 17 of this Note) or to refinance such Advance (as provided in paragraph 18 of this Note) without a 5-year period during which such Advance shall not be eligible for any prepayment or refinancing.

(2) "Premium Option Selection" -- Second the Borrower must select the particular fixed premium that will be

required in connection with any prepayment or refinancing of the respective Advance. The options are:

(A) "10 percent premium declining over 10 years"
-- the price for any prepayment or refinancing of the respective Advance shall include a premium equal to 10 percent of the amount of principal being prepaid or refinanced, as the case may be, multiplied by a fraction:

(i) the numerator of which is the number of Payment Dates that occur between:

(aa) in the case of a prepayment, the date of prepayment (if such date is a Payment Date) or the Payment Date immediately preceding the date of prepayment (if the date of prepayment is not a Payment Date), and, in the case of a refinancing, the date of refinancing, which date, in either case, shall be included in computing the number of Payment Dates; and

(bb) the earlier to occur of either:

(I) the Maturity Date that the Borrower selected for such Advance; or

(II) the tenth anniversary of the applicable First Call Date (if the Borrower elected to have the prepayment/refinancing privilege include a 5-year No-Call Period) or the tenth anniversary of the Requested Advance Date (if the Borrower elected to have the prepayment/refinancing privilege not include a 5-year No-Call Period),

which date, in either case, shall be excluded in computing the number of Payment Dates; and

(ii) the denominator of which is 40,

and no premium (x) on or after the tenth anniversary of the applicable First Call Date (if the Borrower elected to have the prepayment/refinancing privilege include a 5-year No-Call Period) or the tenth anniversary of the Requested Advance Date (if the Borrower elected to have

the prepayment/refinancing privilege not include a 5-year No-Call Period), or (y) on the Maturity Date (if the Borrower selected a Maturity Date that will occur before the tenth anniversary of the First Call Date or the tenth anniversary of the Requested Advance Date, as the case may be);

(B) "5 percent premium declining over 5 years" -- the price for any prepayment or refinancing of the respective Advance shall include a premium equal to 5 percent of the amount of principal being prepaid or refinanced, as the case may be, multiplied by a fraction:

(i) the numerator of which is the number of Payment Dates that occur between:

(aa) in the case of a prepayment, the date of prepayment (if such date is a Payment Date) or the Payment Date immediately preceding the date of prepayment (if the date of prepayment is not a Payment Date), and, in the case of a refinancing, the date of refinancing, which date, in either case, shall be included in computing the number of Payment Dates; and

(bb) the earlier to occur of either:

(I) the Maturity Date that the Borrower selected for such Advance; or

(II) the fifth anniversary of the applicable First Call Date (if the Borrower elected to have the prepayment/refinancing privilege include a 5-year No-Call Period) or the fifth anniversary of the Requested Advance Date (if the Borrower elected to have the prepayment/refinancing privilege not include a 5-year No-Call Period),

which date, in either case, shall be excluded in computing the number of Payment Dates; and

(ii) the denominator of which is 20,

and no premium on or after the fifth anniversary of the applicable First Call Date (if the Borrower elected to have the prepayment/refinancing privilege include a 5-year No-Call Period) or the fifth anniversary of the Requested Advance Date (if the Borrower elected to have the prepayment/refinancing privilege not include a 5-year No-Call Period); or

(C) "par" -- the price for any prepayment or refinancing of the respective Advance shall include no premium.

17. Prepayments.

(a) The Borrower may elect to prepay all or any portion of the outstanding principal amount of any Advance made under this Note, or to prepay this Note in its entirety, in the manner, at the price, and subject to the limitations specified in this paragraph 17 (each such election being a "Prepayment Election").

(b) For each Prepayment Election in which the Borrower elects to prepay a particular amount of the outstanding principal of an Advance, the Borrower shall deliver to RUS written notification of the respective Prepayment Election, in the form of notification attached to this Note as Annex C-1 (each such notification being a "Prepayment Election Notice"), making reference to the Advance Identifier that FFB assigned to the respective Advance (as provided in the Agreement) and specifying, among other things, the following:

(1) the particular date on which the Borrower intends to make the prepayment on such Advance (such date being the "Intended Prepayment Date" for such Advance), which date:

(A) must be a Business Day; and

(B) for any Advance for which the Borrower has selected a fixed premium prepayment/refinancing privilege that includes a 5-year No-Call Period, may not be a date that will occur before the applicable First Call Date; and

(2) the amount of principal of the respective Advance that the Borrower intends to prepay, which amount may be either:

(A) the total outstanding principal amount of such Advance; or

(B) an amount less than the total outstanding principal amount of such Advance (subject to subparagraph (g) of this paragraph 17) (any such amount being a "Portion").

(c) For each Prepayment Election in which the Borrower elects to have a particular amount of funds applied by FFB toward the prepayment of the outstanding principal of an Advance, the Borrower shall deliver to RUS written notification of the respective Prepayment Election, in the form of notification attached to this Note as Annex C-2 (each such notification also being a Prepayment Election Notice), making reference to the Advance Identifier that FFB assigned to the respective Advance (as provided in the Agreement) and specifying, among other things, the following:

(1) the particular date on which the Borrower intends to make the prepayment on such Advance (such date being the "Intended Prepayment Date" for such Advance), which date:

(A) must be a Business Day; and

(B) for any Advance for which the Borrower has selected a fixed premium prepayment/refinancing privilege that includes a 5-year No-Call Period, may not be a date that will occur before the applicable First Call Date; and

(2) the particular amount of funds that the Borrower elects to be applied by FFB toward a prepayment of the outstanding principal amount of such Advance.

(d) To be effective, a Prepayment Election Notice must be approved by RUS in writing, and such Prepayment Election Notice, together with written notification of RUS's approval thereof, must be received by FFB on or before the fifth Business Day before the date specified therein as the Intended Prepayment Date for the respective Advance or Portion.

(e) The Borrower shall pay to FFB a price for the prepayment of any Advance, any Portion of any Advance, or this Note in its entirety (such price being the "Prepayment Price" for such Advance or Portion or this Note, as the case may be) determined as follows:

(1) in the event that the Borrower elects to prepay the entire outstanding principal amount of any Advance, then the

Borrower shall pay to FFB a Prepayment Price for such Advance equal to the sum of:

(A) the entire outstanding principal amount of such Advance on the Intended Prepayment Date;

(B) all unpaid interest (and Late Charges, if any) accrued on such Advance through the Intended Prepayment Date; and

(C) the amount of the premium or discount credit (if any) that is required under the particular prepayment/refinancing privilege that applies to such Advance;

(2) in the event that the Borrower elects to prepay a Portion of any Advance, then the Borrower shall pay to FFB a Prepayment Price for such Portion that would equal such Portion's pro rata share of the Prepayment Price that would be required for a prepayment of the entire outstanding principal amount of such Advance (determined in accordance with the principles of clause (1) of this subparagraph (e)); and

(3) in the event that the Borrower elects to prepay this Note in its entirety, then the Borrower shall pay to FFB an amount equal to the sum of the Prepayment Prices for all outstanding Advances (determined in accordance with the principles of clause (1) of this subparagraph (e)).

(f) Payment of the Prepayment Price for any Advance, any Portion of any Advance, or this Note in its entirety shall be due to FFB before 3:00 p.m. (Washington, D.C., time) on the Intended Prepayment Date for such Advance or Portion or this Note, as the case may be.

(g) Each prepayment of a Portion shall, as to the principal amount of such Portion, be subject to a minimum amount equal to \$100,000.00 of principal.

(h) In the event that the Borrower makes a Prepayment Election with respect to any Portion of an Amortizing Advance, then the Prepayment Price paid for such Portion shall be applied as provided in paragraph 14 of this Note and, with respect to application to outstanding principal, such Prepayment Price shall be applied to principal installments in the inverse order of maturity.

(i) In the event that the Borrower makes a Prepayment Election with respect to any Portion of an Amortizing Advance, then the outstanding principal amount of such Amortizing Advance, after such partial prepayment, shall be due and payable in accordance with this subparagraph (i).

(1) With respect to each Amortizing Advance to which either the "equal principal installments" method or the "graduated principal installments" method for the repayment of principal applies, the amount of the quarterly principal installments that will be due after such partial prepayment shall be equal to the quarterly installments of equal principal or graduated principal, as the case may be, that were due in accordance with the principal repayment schedule that applied to such Amortizing Advance immediately before such partial prepayment.

(2) With respect to each Amortizing Advance to which the "level debt service" method for the repayment of principal applies, the amount of the quarterly payments consisting of a principal installment and accrued interest that will be due after such partial prepayment shall be equal to the amount of the level debt service payments that were due in accordance with the level debt service payment schedule that applied to such Amortizing Advance immediately before such partial prepayment, and such payments shall be allocated by FFB between principal and accrued interest, as appropriate.

(3) For each such Amortizing Advance, the quarterly installments of equal principal or graduated principal, or level quarterly payments consisting of a principal installment and accrued interest, as the case may be, shall be due beginning on the first Payment Date to occur after such partial prepayment, and shall be due on each Payment Date to occur thereafter up through and including the earlier to occur of either (A) the Maturity Date for such Amortizing Advance, on which date the entire unpaid principal amount of such Amortizing Advance shall also be payable, subject to Maturity Extensions (as provided in paragraph 15 of this Note) if the Maturity Date is an Interim Maturity Date, or (B) the date on which the entire principal amount of such Amortizing Advance, and all unpaid interest (and Late Charges, if any) accrued thereon, are paid.

(j) The Borrower may make more than one Prepayment Election with respect to an Advance, each such Prepayment Election being

made with respect to a different Portion of such Advance, until such time as the entire principal amount of such Advance is repaid in full.

18. Refinancings.

(a) The Borrower may elect to refinance the outstanding principal amount of any Advance (but not any Portion) in the manner, at the price, and subject to the limitations specified in this paragraph 18 (each such election being a "Refinancing Election").

(b) Except under the circumstances described in subparagraph (d) of this paragraph 18, the Borrower shall deliver to FFB (with a copy to RUS) written notification of each Refinancing Election, in the form of notification attached to this Note as Annex D-1 (each such notification being a "Refinancing Election Notice"), making reference to the Advance Identifier that FFB assigned to the respective Advance (as provided in the Agreement) and specifying, among other things, the following:

(1) the particular date on which the Borrower intends to refinance the respective Advance (such date being the "Intended Refinancing Date" for the respective Advance), which date:

(A) must be a Payment Date; and

(B) for any Advance for which the Borrower has selected a prepayment/refinancing privilege that includes a 5-year No-Call Period, may not be a date that will occur before the applicable First Call Date;

(2) the amount of the outstanding principal of the respective Advance that the Borrower elects to refinance (subject to the clause (1) of subparagraph (e) of this paragraph 18); and

(3) the Maturity Date that the Borrower selects to be in effect for such principal amount after such refinancing, which date may be:

(A) the Maturity Date that is in effect for such Advance immediately before such refinancing; or

(B) a new Maturity Date that the Borrower selects in connection with such Refinancing Election, provided

that such new Maturity Date meets the criteria for Maturity Dates prescribed in paragraph 5 of this Note (provided, however, that for purposes of selecting a new Maturity Date in connection with a Refinancing Election, the reference to "the Requested Advance Date for the respective Advance" in subparagraph (c) of paragraph 5 of this Note shall be deemed to be a reference to "the respective Refinancing Effective Date").

(c) To be effective, a Refinancing Election Notice must be received by FFB on or before the fifth Business Day before the date specified therein as the Intended Refinancing Date.

(d) In the event that either of the circumstances described in clause (1) or (2) of the next sentence shall have occurred, then a Refinancing Election Notice (in the form of notice attached to this Note as Annex D-2), to be effective, must first be delivered to RUS for approval and be approved by RUS in writing, and such Refinancing Election Notice, together with written notification of RUS's approval thereof, must be received by FFB on or before the fifth Business Day before the date specified therein to be the Intended Refinancing Date. RUS approval of a Refinancing Election Notice will be required under either of the following circumstances:

(1) (A) payment of any amount owing under this Note is not made by the Borrower when and as due, (B) payment is made by RUS in accordance with the guarantee set forth at the end of this Note, and (C) RUS delivers notice to both the Borrower and FFB advising each of them that each Refinancing Election Notice delivered by the Borrower after the date of such notice shall require the approval of RUS; or

(2) FFB at any time delivers notice to both the Borrower and RUS advising each of them that each Refinancing Election Notice delivered by the Borrower after the date of such notice shall require the approval of RUS.

(e) The Borrower shall pay to FFB a price for the refinancing of any Advance (such price being the "Refinancing Price" for such Advance) equal to the sum of:

(1) the principal installment (if any) that is due on the particular Payment Date that the Borrower specified to be the Intended Refinancing Date, in accordance with the

principal repayment schedule that applied to such Advance immediately before such refinancing;

(2) all unpaid interest (and Late Charges, if any) accrued on such Advance through the Intended Refinancing Date; and

(3) the amount of the premium (if any) that is required under the particular prepayment/refinancing privilege that applies to such Advance.

In the event that (A) the prepayment/refinancing privilege that applies to the particular Advance being refinanced is the privilege described in subparagraph (b) of paragraph 16 of this Note, and (B) the Market Value Premium (or Discount) that is to be included in the Refinancing Price for such Advance is a discount on such Advance, then such discount shall be applied by FFB in the manner requested by the Borrower in a written notice delivered by the Borrower to FFB and approved by RUS in writing.

(f) Payment of the Refinancing Price for any Advance shall be due to FFB before 3:00 p.m. (Washington, D.C., time) on the Intended Refinancing Date for such Advance.

(g) In the event that a Refinancing Election Notice (and, if required under subparagraph (d) of this paragraph 18, written notification of RUS's approval thereof) is received by FFB on or before the fifth Business Day before the Intended Refinancing Date specified therein, then the refinancing of the respective Advance shall become effective on such Intended Refinancing Date (in such event, the Intended Refinancing Date being the "Refinancing Effective Date"). In the event that a Refinancing Election Notice (and, if required under subparagraph (d) of this paragraph 18, written notification of RUS's approval thereof) is received by FFB after the fifth Business Day before the Intended Refinancing Date specified therein, then the refinancing of the respective Advance shall become effective on the fifth Business Day to occur after the day on which such Refinancing Election Notice (and, if required under subparagraph (d) of this paragraph 18, written notification of RUS's approval thereof) is received by FFB (in such event, the fifth Business Day to occur after the day on which such Refinancing Election Approval Notice (and, if required under subparagraph (d) of this paragraph 18, written notification of RUS's approval thereof) is received by FFB being the "Refinancing Effective Date"), provided that the Borrower shall have paid to FFB, in addition to the Refinancing Price required under subparagraph (e) of this paragraph 18, the

interest accrued from the Intended Refinancing Date through such Refinancing Effective Date.

(h) In the event that the Borrower makes a Refinancing Election with respect to any Advance, the basic interest rate for such Advance, from and after the respective Refinancing Effective Date, shall be the particular rate that is established by FFB, as of such Refinancing Effective Date, in accordance with the principles of subparagraph (c) of paragraph 6 of this Note.

(i) In the event that (1) the Borrower makes a Refinancing Election with respect to any Advance, and (2) the Borrower selects as the Maturity Date for such refinanced Advance either (A) the Maturity Date that is in effect for such Advance immediately before such refinancing, and such Maturity Date will occur before the fifth anniversary of the respective Refinancing Effective Date, or (B) a new Maturity Date that will occur before the fifth anniversary of the respective Refinancing Effective Date, then the prepayment/refinancing privilege described in subparagraph (b) of paragraph 16 of this Note shall apply automatically to such Advance.

(j) In the event that (1) the Borrower makes a Refinancing Election with respect to any Advance, and (2) the Borrower selects as the Maturity Date for such refinanced Advance either (A) the Maturity Date that is in effect for such Advance immediately before such refinancing, and such Maturity Date will occur on or after the fifth anniversary of the respective Refinancing Effective Date, or (B) a new Maturity Date that will occur on or after the fifth anniversary of the respective Refinancing Effective Date, then the Borrower must elect a prepayment/refinancing privilege for such refinanced Advance from between the options described in subparagraphs (b) and (c) of paragraph 16 of this Note (provided, however, that each of the references to "the Requested Advance Date for such Advance" in subparagraph (c) of paragraph 16 of this Note shall be deemed to be a reference to "the respective Refinancing Effective Date"). The Refinancing Election Notice delivered by the Borrower in connection with each such Refinancing Election must also specify the particular prepayment/refinancing privilege that the Borrower elects for the respective refinanced Advance. In the event that the Borrower elects for any such refinanced Advance a prepayment/refinancing privilege described in subparagraph (c) of paragraph 16 of this Note, then the interest rate for such refinanced Advance, from and after the respective Refinancing Effective Date, shall include a price (expressed in terms of a basis point increment to the applicable basic interest rate) for the particular prepayment/refinancing privilege that the Borrower

elects, which increment shall be established by FFB, as of such Refinancing Effective Date, in accordance with the principles of subparagraph (d) of paragraph 6 of this Note.

(k) In the event that the Borrower makes a Refinancing Election with respect to any Amortizing Advance, then the outstanding principal amount of such Amortizing Advance, after the respective Refinancing Effective Date, shall be due and payable in accordance with this subparagraph (k).

(1) With respect to each Amortizing Advance to which either the "equal principal installments" method or the "graduated principal installments" method for the repayment of principal applies, the amount of the quarterly principal installments that will be due after the respective Refinancing Effective Date shall be equal to the amount of the quarterly installments of equal principal or graduated principal, as the case may be, that were due in accordance with the principal repayment schedule that applied to such Amortizing Advance immediately before the respective Refinancing Effective Date.

(2) With respect to each Amortizing Advance to which the "level debt service" method for the repayment of principal applies, the amount of the level quarterly payments consisting of a principal installment and accrued interest that will be due after the respective Refinancing Effective Date shall be newly computed so that the amount of each such quarterly payment consisting of a principal installment and accrued interest (taking into account the new interest rate that applies to such Amortizing Advance from and after such Refinancing Effective Date) shall be substantially equal to the amount of every other quarterly payment consisting of a principal installment and accrued interest, and shall be sufficient, when added to all other such newly-computed level quarterly payments consisting of a principal installment and accrued interest, to repay the outstanding principal amount of such refinanced Amortizing Advance in full on the Final Maturity Date (notwithstanding the fact that the Borrower may have selected a Maturity Date for such refinanced Amortizing Advance that will occur before the Final Maturity Date).

(3) The quarterly installments of equal principal or graduated principal, or the newly-computed level quarterly payments consisting of a principal installment and accrued interest, as the case may be, shall be due beginning on the first Payment Date to occur after the respective Refinancing

Effective Date, and shall be due on each Payment Date to occur thereafter up through and including the earlier to occur of (A) the new Maturity Date that the Borrower selected for such refinanced Amortizing Advance, on which date the entire unpaid principal amount of such refinanced Amortizing Advance shall also be payable, subject to Maturity Extensions (as provided in paragraph 15 of this Note) if the new Maturity Date is an Interim Maturity Date, or (B) the date on which the entire principal amount of such refinanced Amortizing Advance, and all unpaid interest (and Late Charges, if any) accrued thereon, are paid.

(l) The Borrower may make more than one Refinancing Election with respect to any Advance.

19. Rescission of Prepayment Elections and Refinancing Elections; Late Charges for Late Payments.

(a) The Borrower may rescind any Prepayment Election made in accordance with paragraph 17 of this Note or any Refinancing Election made in accordance with paragraph 18 of this Note, but only in accordance with this paragraph 19.

(b) The Borrower shall deliver to both FFB and RUS written notification of each rescission of a Prepayment Election or a Refinancing Election (each such notification being an "Election Rescission Notice") specifying the particular Advance for which the Borrower wishes to rescind such Prepayment Election or Refinancing Election, as the case may be, which specification must make reference to both:

(1) the particular Advance Identifier that FFB assigned to such Advance (as provided in the Agreement); and

(2) the RUS account number for such Advance.

The Election Rescission Notice may be delivered by facsimile transmission to FFB at (202) 622-0707 and to RUS at (202) 720-1401, or at such other facsimile number or numbers as either FFB or RUS may from time to time communicate to the Borrower.

(c) To be effective, an Election Rescission Notice must be received by both FFB and RUS not later than 3:30 p.m. (Washington, D.C., time) on the second Business Day before the Intended Prepayment Date or the Intended Refinancing Date, as the case may be.

(d) In the event that the Borrower (1) makes a Prepayment Election in accordance with paragraph 17 of this Note or a Refinancing Election in accordance with paragraph 18 of this Note, (2) does not rescind such Prepayment Election or Refinancing Election, as the case may be, in accordance with this paragraph 19, and (3) does not, before 3:00 p.m. (Washington, D.C., time) on the Intended Prepayment Date or Intended Refinancing Date, as the case may be, pay to FFB the Prepayment Price described in subparagraph (e) of paragraph 17 of this Note or Refinancing Price described in subparagraph (e) of paragraph 18 of this Note, as the case may be, then a Late Charge shall accrue on any such unpaid amount from the Intended Prepayment Date or Intended Refinancing Date, as the case may be, to the date on which payment is made, computed in accordance with the principles of paragraph 11 of this Note.

20. Amendments to Note.

To the extent not inconsistent with applicable law, this Note, for so long as FFB or its agent is the holder thereof, shall be subject to modification by such amendments, extensions, and renewals as may be agreed upon from time to time by FFB and the Borrower, with the approval of RUS.

21. Certain Waivers.

The Borrower hereby waives any requirement for presentment, protest, or other demand or notice with respect to this Note.

22. Note Effective Until Paid.

This Note shall continue in full force and effect until all principal outstanding hereunder, all interest accrued hereunder, all premiums (if any) payable under paragraphs 17 and 18 of this Note, all Late Charges (if any) payable under paragraphs 11 and 19 of this Note, and all fees (if any) payable under paragraph 9 of this Note have been paid in full.

23. RUS Guarantee of Note.

Upon execution of the guarantee set forth at the end of this Note (the "Guarantee"), the payment by the Borrower of all amounts due and payable under this Note, when and as due, shall be guaranteed by the United States of America, acting through RUS, pursuant to the Rural Electrification Act of 1936, as amended (codified at 7 U.S.C. § 901 et seq.). In consideration of the Guarantee, the Borrower promises to RUS to make all payments due under this Note when and as due.

24. Security Instrument; RUS as "Holder" of Note for Purposes of the Security Instrument.

This Note is one of several notes permitted to be executed and delivered by, and is entitled to the benefits and security of, the particular security instrument or instruments specified on page 1 of this Note (such security instrument or instruments, as it or they may have heretofore been, and as it or they may hereafter be, amended, supplemented, restated, or consolidated from time to time in accordance with its or their terms, being, collectively, the "Security Instrument"), whereby the Borrower pledged and granted a security interest in certain property of the Borrower, described therein, to secure the payment of and performance of certain obligations owed to REA, predecessor to RUS, or to RUS, as the case may be, as set forth in the Security Instrument. For purposes of the Security Instrument, RUS shall be considered to be, and shall have the rights, powers, privileges, and remedies of, the holder of this Note.

25. Guarantee Payments; Reimbursement.

If RUS makes any payment, pursuant to the Guarantee, of any amount due and payable under this Note, when and as due, each and every such payment so made shall be deemed to be a payment hereunder; provided, however, that no payment by RUS pursuant to the Guarantee shall be considered a payment for purposes of determining the existence of a failure by the Borrower to perform its obligation to RUS to make all payments under this Note when and as due. RUS shall have any rights by way of subrogation, agreement or otherwise which arise as a result of such payment pursuant to the Guarantee and as provided in the reimbursement note executed and delivered by the Borrower to the United States of America, acting through RUS, to evidence the Borrower's obligation to reimburse RUS for payment made by RUS pursuant to the Guarantee.

26. Default and Enforcement.

In case of a default by the Borrower under this Note or a the occurrence of an event of default under the Security Instrument, then, in consideration of the obligation of RUS under the Guarantee, in that event, to make payments to FFB as provided in this Note, RUS, in its own name, shall have all rights, powers, privileges, and remedies of the holder of this Note, in accordance with the terms of this Note and the Security Instrument, including, without limitation, the right to enforce or collect all or any part of the obligation of the Borrower under this Note or arising as a result of the Guarantee, to file

proofs of claim or any other document in any bankruptcy, insolvency, or other judicial proceeding, and to vote such proofs of claim.

27. Acceleration.

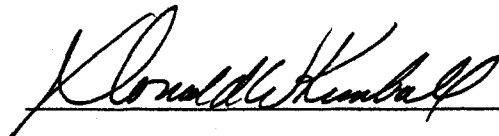
The entire unpaid principal amount of this Note, and all interest thereon, may be declared, and upon such declaration shall become, due and payable to RUS, under the circumstances described, and in the manner and with the effect provided, in the Security Instrument.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate name and its corporate seal to be hereunder affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

SOUTHWEST TRANSMISSION COOPERATIVE, INC.
(name of Borrower)

BY:

Signature:

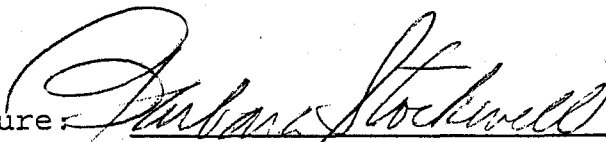


Print Name: DONALD W. KIMBALL

Title: President and
Chief Executive Officer

ATTEST:

Signature:



(SEAL)

Print Name:



Title: Secretary